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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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RUEHBJ/AMEMBASSY BEIJING 2404
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RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUEHGV/USMISSION GENEVA 0824
RUEHVEN/USMISSION USOSCE 2810
RUCNDT/USMISSION USUN NEW YORK 2194
RUEHNO/USMISSION USNATO BRUSSELS BE
RUEHBS/USEU BRUSSELS
RUEHLMC/MILLENNIUM CHALLENGE CORP
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 000086

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SUBJECT: KYRGYZ BANK STRUCK BY GOVERNMENT CASH CALL

REF: 07 BISHKEK 949

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Classified By: Amb. Marie L. Yovanovitch, Reasons 1.4 (b) and (d).

¶1. (SBU) Summary: In late December, the National Bank of the Kyrgyz Republic (NBKR) took operational control of Kyrgyzpromstroybank (KPSB) after KPSB reportedly failed to meet a demand by the Kyrgyz Social Fund to withdraw its funds. The Social Fund had approximately \$56 million in deposits at KPSB, which represented a near majority of the bank's deposits. The NBKR has since transferred most, if not all, Social Fund deposits from KPSB to other financial institutions. On January 11, the NBKR put KPSB into conservatorship, freezing the accounts of legal entities but reportedly allowing continued access to funds by individual clients. A court hearing on the status of KPSB was scheduled to begin January 23, but was postponed after KPSB filed a separate legal challenge.

¶2. (C) Summary continued: The timing of the Social Fund's demand withdrawal and the NBKR's decision to take over the bank appear to have been driven by politics rather than concern over the safety of deposits. Newly appointed Social Fund Chair (and former Speaker of Parliament) Marat Sultanov justified the NBKR's intervention on the basis that KPSB had insufficient reserves to cover the Social Fund's deposits, but media reports have speculated that the NBKR's takeover was initiated to target former KPSB Chairman (and former MP) Muratbek Mukashev, who has been a strong supporter of the political opposition. Mukashev reportedly retains a substantial interest in the bank, in addition to keeping an office there. Social Fund deposits have been transferred to more favored banks, particularly Ineximbank, which is affiliated with Bishkek Mayor Daniyar Usenov, and Tolubai Bank, which is affiliated with former MP Bolot Maripov. End summary.

Raiding the Bank

¶3. (U) In late December, the National Bank of the Kyrgyz Republic (NBKR) took direct control of Kyrgyzpromstroybank (KPSB) and suspended KPSB's banking operations. KPSB is a corporate bank with some retail clients and 29 branch locations.

¶4. (C) According to an informed observer, KPSB was unable to accommodate the Kyrgyz State Social Fund's withdrawal request for the majority of its nearly two billion soms (\$56 million) in deposits at KPSB. Kyrgyz authorities subsequently raided the bank and detained employees overnight. Recently appointed Social Fund Chair (and former parliament speaker) Marat Sultanov justified the NBKR intervention on the basis of KPSB's insufficient reserves to cover Social Fund deposits. Social Fund deposits of 1.912 billion soms have reportedly already been transferred to other banking institutions. Ineximbank, which has close links to Bishkek mayor Daniyar Usenov, received 920 million soms of these funds as new deposits, and Tolubai Bank, which is affiliated with former MP Bolot Maripov, also received deposits.

¶5. (SBU) On January 11, the NKBR formally put KPSB into conservatorship, closing the bank until the court case. The NKBR's move effectively froze the accounts of "juridical persons," but individual clients were reportedly still able to withdraw their funds. An interdistrict court hearing on the NBKR's action scheduled for January 23 was stayed after KPSB appealed to the Bishkek City Court that it had completed the Social Fund's transfer request. The Bishkek City Court now must decide whether to proceed with the case or send it to the interdistrict court.

Tainted by the Opposition?

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¶6. (C) While KPSB has some former government officials in its leadership, media accounts have focused on Muratbek Mukashev, who was KPSB Board president from 1991 until 2005, when he relinquished this position to take a seat in parliament. Mukashev is believed to have a significant ownership stake in KPSB, which describes Mukashev as an "advisor;" even during his parliamentary stint, Mukashev retained an office in the bank, where he preferred to meet with visitors. Mukashev supported political opposition activities in 2006, but did not run or take a public role in the December 2007 parliamentary elections. Former Supreme Court Chair Kurmanbek Osmonov told the Ambassador on January 22 that he believed Mukashev was being targeted, and that his own dismissal from the court on January 17 may have been as a result of his close friendship with Mukashev and government concern about getting a "correct" decision in the court case over KPSB. Separately, we have been told that Osmonov is also a shareholder in KPSB; Osmonov confirmed that his brother works at KPSB, but said this was unlikely a factor.

Comment

¶7. (C) The government-orchestrated "crisis" at KPSB appears to be in part political punishment, in part a grab for the bank's assets, and in part an attempt to make Social Fund deposits available for other purposes. KPSB was seen as an "opposition bank," and the takeover fits into a larger pattern of government actions (through the tax authorities and financial police) against the business interests of opposition figures. Sultanov, who has close connections to the NBKR (see reftel), initiated the move against KPSB shortly after being appointed Social Fund Chair in December, and he was more likely acting on political orders than out of concern over the safety of the Social Fund's deposits.

¶8. (C) Comment continued: Many see the NBKR's action as an excuse to take over the bank's assets. KPSB may have been

overly exposed to one depositor (the Social Fund), but the NBKR's ability subsequently to transfer the Social Fund deposits from KPSB to other financial institutions refutes Sultanov's concerns about KPSB reserves as well as underscores the liquidity of KPSB's assets. In addition, the transfer of Social Fund deposits to "friendly" banks may also be connected to other proposed projects. On January 10, President Bakiyev proposed the "investment" of Social Fund assets into "national projects." Bishkek Mayor Usenov, who is affiliated with Ineximbank, has long favored establishing development funds, and in December he announced plans for a Bishkek Development Fund which would issue securities for investors. It is possible that Ineximbank will use some of the new deposits to support the mayor's development fund scheme.

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